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BC Hydro's Performance Plan

"Towards Sustainability"
A Summary of BC Hydro's
Strategic Direction and
Performance Measures
April 2001

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1.0 INTRODUCTION

This Performance Plan is a summary of BC Hydro's strategic direction and performance measures. It has been prepared pursuant to the Budget Transparency and Accountability Act (BTAA) of July 2000 and the related Guidelines for Government Organizations Performance Plans provided by the Crown Corporations Secretariat, Ministry of Finance. The purpose of the BTAA is to establish "an accountability framework and requirements for government and government-related organizations".

Our strategic direction is reviewed, clarified, and refined on an annual basis as part of our Strategic Management Process. In late 2000, the concept of "sustainability" was adopted as our strategic direction. This direction is reflected in our updated Strategy Map, Corporate Scorecard, and Triple Bottom Line annual report.

Our Performance Plan outlined in this document charts the story of BC Hydro's vision as an energy company. It describes both the goals we have as a commercial crown corporation, and the measures we use to help us achieve those goals. It will also highlight some of the key issues facing BC Hydro as we move forward.

2.0 STRATEGIC CONTEXT

This section provides the context for our goals and objectives, and key strategies and performance measures. It states our vision, mission and values, then provides some information on the environment in which we operate and the key strategic issues facing our company.

2.1 Vision

A competitive commercial Crown corporation which creates superior value for our customers and our shareholder through the exceptional contribution of our people.

2.2 Mission

To provide integrated energy solutions to customers in an environmentally and socially responsible manner.

2.3 Values

Leadership

We strive to inspire people and create the environment for employees to reach their fullest potential. We create a vision and constantly communicate it so everyone understands what his or her role is in contributing to that vision. We model desired behaviours, face difficult issues, and make tough, timely decisions.

Integrity

Our actions match our words. We are fair, honest, and adherent to ethical standards. We treat others with respect.

Commitment

We keep our promises, overcome obstacles, and pursue with a passion.

Innovation

We will champion responsible risk taking, learn from successes and failures, initiate positive change, and practice creative thinking.

Teamwork

We put the success of the team before individual success and work together to achieve results. We recognize contributions that others make and share resources and information with others.

Accountability

We act in accordance with BC Hydro's values and acknowledge and take responsibility for successes and failures.

2.4 Environmental Scan and Key Strategic Issues

The following is a summary assessment of the current state of our business environment. The purpose of the summary is to identify significant developments that have occurred over the last year that could impact BC Hydro's future business. Where relevant, actions taken in response to the developments have been included.

Financial Performance

Fiscal 2001 has been a very successful year for BC Hydro. Net income before rate stabilization account transfers were much higher than planned and our domestic electricity rates continue to be amongst the lowest in North America. There has not been a rate increase for over seven years with rates frozen by legislation until the fall of this year. We were able to take advantage of significant opportunities created by a strong export market and high electricity trade sales prices, by optimizing the use of our storage facilities to maximize profitable import and export of energy. The high prices were mainly due to several factors relating to the Californian market and its restructuring problems including: increased in demand as a result of an unusually warm summer followed by an unusually cold fall and winter; a lack of new generating capacity; higher natural gas prices; a strong state economy that greatly increased demand for energy; reduced water inflows in the Pacific Northwest; and scattered unit outages.

The rapid rise in market prices for electricity has caused significant hardship for a number of utilities in California. Under California's electricity market restructuring, some utilities were not allowed to pass on the costs of the higher market prices to their customers. As a result, these utilities have accumulated large losses and have defaulted on payments to the California Power Exchange (CalPx) and the California Independent System Operator (CISO). While we are continuing to sell energy to California on a secured basis, we are ensuring that current and future domestic supply requirements are not put at risk.

Price spikes for electricity in external markets have dramatically improved our near term profitability. However, with the high volatility around trade sales, we cannot rely on

energy trading profits at current levels to be sustained. An increase in the price of low-load hour energy is expected to decrease the margins we can achieve on buy low, sell high transactions. The credit issues in California may also limit some of our electricity trade opportunities in that region. Therefore, we do not expect to be able to achieve the same level of electricity trade income as the current year.

In fact, as we approach the coming fiscal year our financial forecasts point to a significant overall drop in income. This drop is largely due to low snowpacks and projected low inflows into our reservoirs for the coming year. According to the latest forecast, system inflows are approximately 80 per cent of average. These conditions prevail across western North America and are expected to put upward pressure on the price of energy purchases. To meet BC's electricity needs, we have a portfolio of options to consider. Our reservoirs have sufficient water stored to meet the needs of customers over successive low water years, although the actual levels of some of those reservoirs may go lower than has recently been the case. To lessen the impact on these levels, hydro-electric generation may be offset by combinations of: increasing the operation of Burrard Thermal Generating Station; importing more electricity into the system; and enhancing conservation efforts. Many operating scenarios will be evaluated to find the best balance between the economic, environmental and social priorities involved.

Market Restructuring and Competition

The North American transition towards a competitive deregulated electricity industry continues with painful and costly transition pains and at a slower pace. While we are certain that competition will continue to increase, the pace of change and direction of the electricity industry reform are still highly uncertain. Regardless of this uncertainty, we believe we must continue to focus on productivity, efficiency and providing value to our customers. We are making significant strides to develop a more commercial and customer focus in order to keep pace with external business environment changes and preserve value.

Many utilities are rethinking their business strategies, developing different business models and undertaking significant corporate and financial restructuring. BC Hydro possesses the basic ingredients to be one of the leading energy companies in North America. We are examining options for preserving BC Hydro's strengths, while facilitating growth inside and outside BC.

The development of a Regional Transmission Organization (RTO) has significant implications for protecting and enhancing our electricity trade income. We have taken steps to preserve market access by putting significant resources towards our participation in "RTO West".

Human Resources

We recognize that our people are our most important assets and a key to future success. Two key issues include:

Demographics - as with many British Columbian companies, many of our employees are over 40 years of age - creating an "age imbalance" which poses a number of challenges. We will need to plan strategically and systematically to replace employees as they retire and take measures to ensure that critical skills and institutional memory are retained. There will need to be a continuous focus on training and development to ensure that our workforce is keeping pace with technology and other developments. Employee health issues become broader than simply safety to providing a healthy workplace that provides education on and encourages healthy lifestyles.

Employee Attraction and Retention - skills shortages have caused the "market rate" for selected positions to rise as companies seek to attract and retain people with these skills. We are experiencing attraction and retention problems for jobs in information technology, engineering, finance, power trading and most recently, some of the skilled trades.

We have implemented a number of employee initiatives, such as gain sharing and strategic workforce planning, in order to address these issues.

By clarifying our strategic direction (i.e. towards sustainability) we have provided a sense of common purpose to all employees at BC Hydro, as well as enhanced our ability to attract new employees. Through sessions across the company and other communications means, this strategic direction has been broadly discussed.

Environmental and Social Trends

The focus on the environment and sustainable business practices is growing and will likely intensify. The North American electricity sector is operating in a context of changing social and environmental expectations as the public and customers increasingly value corporate social responsibility, protection of biodiversity, environmental sustainability, and advanced renewable energy. Electric utility and regulatory responses to these increasing expectations also continue to evolve, although uncertainty exists as to whether coincident electricity market reform initiatives will improve or worsen the sector's social and environmental performance. These trends and uncertainties are expected to have significant influence on best practices for social responsibility, environmental policy instruments (e.g. green technology standards, emissions trading), and types of power technologies that might emerge in the future.

Climate change concerns and green energy market development are of particular interest to us as these issues appear to be emerging as the most significant energy/environment issues moving into the 21st century. Consequently, greenhouse gases (GHG) are becoming an increasingly important measure of our environmental performance. We have committed to offset 50% of the net increase in greenhouse gas emissions at two natural gas-fired generating plants (one nearing completion and one proposed) on Vancouver Island through the year 2010. We have also developed a performance measure for green energy development and are currently committed to acquiring 10% of all our new energy from green energy sources.

Technology

The role of technology has been enhanced by the move towards deregulation. The implications of these technologies range from opportunities to threats. A number of developing technologies will likely have a significant impact on future electricity markets including: combined cycle gas turbine generation; distributed generation; and various technologies which allow transmission systems to operate closer to their physical limits. Also, there is a renewed focus, and much progress, on technology developments in smaller scale, renewable generation resources. We have committed to the investigation of, and investment in, such technologies.

The global transformation to an information economy is real. Consequently, companies can expect to face continually heightened expectations, particularly from a customer point of view. Many utilities, including BC Hydro, see efficiencies, cost reductions and new approaches to customer service arising from the use of information technology.

Public and Customer Views on BC Hydro

We continue to enjoy high ratings from the public and our customers in all categories measured, including overall impression, management, value for money and environmental performance. Furthermore, the public has expressed a high level of endorsement for our trading activities.

While there has been a recent drop in the public's overall impression of BC Hydro, this appears to be largely attributed to increasing natural gas prices.

3.0 GOALS and OBJECTIVES

In light of the current business environment, we have reviewed our company's strengths and challenges. In doing so, the concept of sustainability has been adopted as our strategic direction. While we have already been on the road to sustainability for a long time, and have much to be proud of, we recognize that much more value can be created by further integrating sustainability considerations into our core business strategies. This direction has been articulated in the following statements of strategic intent and is being reflected in all business planning.

Sustainability

Our vision is based on the principles of providing financial, environmental and social value to our stakeholders. This means we are in business to make money in a manner that promotes positive and minimizes negative environmental impacts and provides benefits to the public and employees. We think about sustainability and the interplay of financial, environmental, and social performance, as the triple bottom line.

Superior Value for Our Customers

We will provide our customers with reliable services and integrated, sustainable energy solutions that exceed expectations. We must be competitive, efficient, caring, helpful, and worthy of trust. We will deliver.

Superior Value for Our Shareholder

We will provide financial, environmental and social returns to our shareholder consistent with expectations of a best-in-class commercial energy company, while reflecting the cost of additional activities we undertake as part of our public policy role.

Exceptional Contribution of Our People

We will build a high performance workforce, committed to helping us succeed in tomorrow's energy marketplace, by communicating our vision, investing in our people and cultivating a work environment that maximizes employee potential.

Building and Maintaining Public Support

We will build public expectations into our business decisions and in so doing, contribute to the economic, environmental and social well-being of communities.

Growth

We will grow our business and improve our performance across the triple bottom line by returning more value from our existing assets and creating new value through integrated energy solutions and sustainable energy business investments.

In summary, we are well positioned to continue to be successful in the future, but at the same time we face a number of significant challenges. Anticipating and preparing for the future are essential if we are to provide superior value to our customers, employees, shareholder and the public.

4.0 KEY STRATEGIES and PERFORMANCE MEASURES

Our strategic direction centers on the concept of sustainability. Sustainability is about focusing on financial, environmental, and social value to address the challenges we face. The sustainability direction offers us a unique opportunity to unite the company and our stakeholders around a common vision of moving further towards becoming a sustainable energy company. To do this we need to continue to focus on our strengths and to act on a number of specific opportunities.

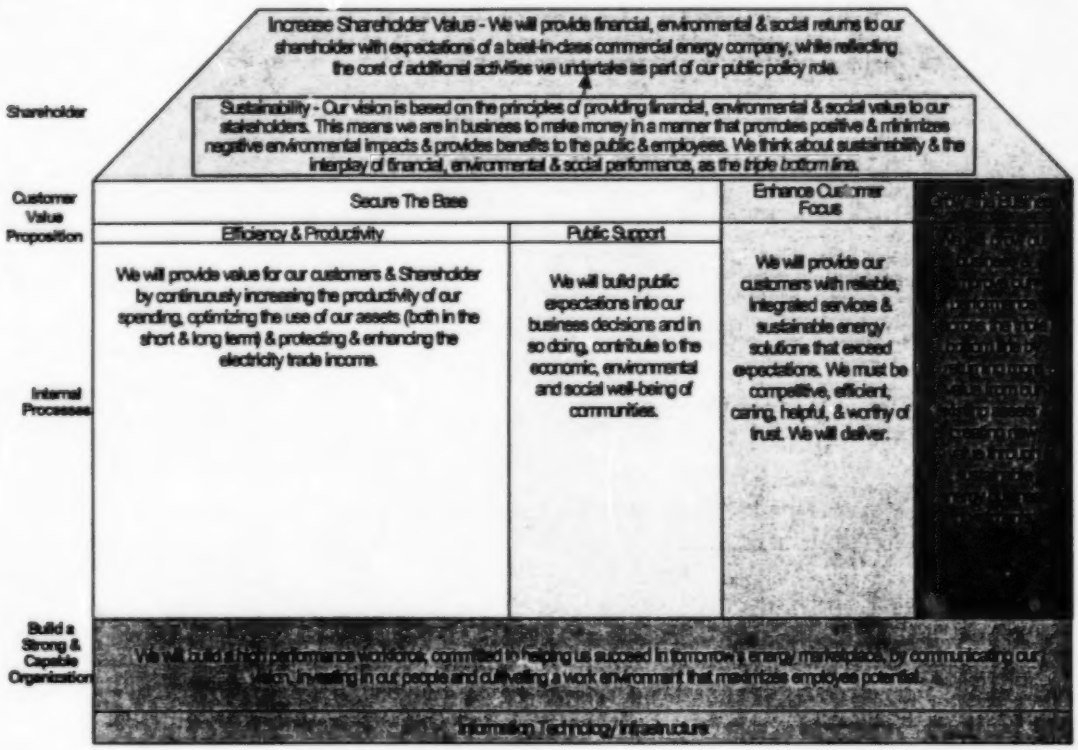
We will to continue to focus on our strengths in all three components of sustainability. For the social component this focus means engaging our employees to encourage innovation and alignment with our strategic direction, bringing focus and direction to our relationships with stakeholders, and bringing focus and direction of our contributions to society. For the environment component this focus means practicing eco-efficiency (i.e. reducing/avoiding the environmental impacts of our generation, transmission and distribution operations) and offsetting and capping existing and planned greenhouse gas emissions. For the financial component this focus means optimizing asset utilization and health, protecting and enhancing electricity trade income, seeking opportunities to develop, operate and market hydroelectric potential, and developing a customer-focused culture.

We see specific opportunities in green energy development (small and micro hydro, biomass, and wind) for domestic supply and export and regulatory mechanisms for a domestic green energy market. Also, we see opportunities in sustainable energy business ventures (hydrogen and fuel cells, joint ventures). Finally, we see opportunities in an expanded program for Residential Power Smart and Commercial and Industrial Demand Side Management.

The Strategy Map

A key component of our Strategic Management Process is our Strategy Map. The Map, formerly known as the Performance Model, is used to show, on one page, the substance of our business strategy. The Map provides an understanding of our strategic objectives, the definition of those objectives, and a high-level indication of what is required to achieve those objectives. This visual representation of our objectives, along with our vision, mission, values, and the performance measures and targets designed around those objectives, are designed to tell the story of our strategy. Our high level Strategy Map is depicted below.

Figure 1: BC Hydro's High Level Strategy Map


Increase Shareholder Value - We will provide financial, environmental & social returns to our shareholder with expectations of a best-in-class commercial energy company, while reflecting the cost of additional activities we undertake as part of our public policy role.
Shareholder
Sustainability - Our vision is based on the principles of providing financial, environmental & social value to our stakeholders. This means we are in business to make money in a manner that promotes positive & minimizes negative environmental impacts & provides benefits to the public & employees. We think about sustainability & the interplay of financial, environmental & social performance, as the triple bottom line.
Customer Value Proposition
Secure The Base
Enhance Customer Focus
Efficiency & Productivity
Public Support
We will provide value for our customers & Shareholder by continuously increasing the productivity of our spending, optimizing the use of our assets (both in the short & long term) & protecting & enhancing the electricity trade income.
We will build public expectations into our business decisions and in so doing, contribute to the economic, environmental and social well-being of communities.
We will provide our customers with reliable, integrated services & sustainable energy solutions that exceed expectations. We must be competitive, efficient, caring, helpful, & worthy of trust. We will deliver.
Internal Processes
Build a Strong & Capable Organization
We will build a high performance workforce, committed to helping us succeed in tomorrow's energy marketplace, by communicating our vision, investing in our people and cultivating a work environment that maximizes employee potential.
Information Technology Infrastructure

+2

We look at strategy from four perspectives (listed down the left side of the Map): Shareholder (what does the shareholder value from BC Hydro and what does the shareholder expect us to deliver?); Customer (who are our customers and what have they told us they expect from us?); Internal Process (what are the key business processes we must excel at to be able to deliver the value to customers, which translates into value for the shareholder?); and Organizational (what are the foundational factors – the people, skills, culture and information technology infrastructure we must have in place to enable the achievement of the strategy?).

Our key strategies as shown on our Strategy Map are:

Increase Shareholder Value focuses on increasing our financial, environmental, and social returns;

Secure the Base which includes Efficiency & Productivity and Public Support, improves upon the status quo to ensure resources are available to invest in the future;

Enhance Customer Focus strengthens capabilities that will be required regardless of competition;

Grow the Business is the competitive end-state, ensuring we are prepared to enhance the value of our assets and growth; and

Build A Strong & Capable Organization fosters the development of human and technology resources required to execute all the other strategies.

The Balanced Scorecard

Another key component of our Strategic Management Process is our Balanced Scorecard. The Scorecard is used to translate our mission and strategy into tangible measures and targets that drive action. The balanced part of the Scorecard means it contains a combination of both financial and non-financial indicators as well as measures of past performance (lag indicators), and measures of the drivers of future performance (lead indicators). These Performance Measures, together with targets for each of those measures, have been identified for each of our objectives identified earlier in this document. Our high level Scorecard is depicted on Figure 2.

Figure 2: BC Hydro's High Level Balanced Scorecard

PERSPECTIVE	KEY STRATEGIES	MEASURES	TYPE
Shareholder	Increase Shareholder Value	• SVA	Lag
	Increase Shareholder Value	• Base COMA / Customer	Lag
Customer	Enhance Customer Focus	• Customer Satisfaction	Lag
	Enhance Customer Focus	• Customer Transaction Follow-up Survey	Lead
	Secure the Base	• Public Opinion	Lag
Internal Process	Secure the Base / Grow the Business	• System Constraints	Lead
	Secure the Base / Enhance Customer Focus	• Reliability (ASAI, CAIDI)	Lag
	Secure the Base	• % Improvement in Total Accident Frequency	Lead
	Secure the Base	• Effectiveness of External Safety Program Communication	Lead
	Secure the Base	• MWs from Green Energy Sources	Lag
	Secure the Base	• Greenhouse Gas Offsets	Lead
	Secure the Base	• % Completion of 1st Nations Community Fund Agreement Strategy	Lag
	Enhance Customer Focus	• % of Top Customers Visited by VPs	Lead
	Secure the Base / Grow the Business	• % Completion of milestones for Sustainability Opportunities	Lead
Organizational	Build A Strong & Capable Organization	• % of M&P employees with PDPs	Lead
	Build A Strong & Capable Organization	• % of Bargaining Unit employees with PDPs	Lead
	Build A Strong & Capable Organization	• Effective Communications Competency	Lag
	Build A Strong & Capable Organization	• Organizational and Business Awareness Competency	Lag
	Build A Strong & Capable Organization	• % Milestones Met in Top Strategic IT Projects	Lead

Late in 2000, a new approach to selection/retention of measures was adopted whereby certain core measures will remain on the scorecard from year to year and others will change based on updates to our strategic direction. Core measures that reflect our results for shareholder value, operating efficiency, customer satisfaction, public opinion, system reliability and safety have either remained the same or been fine-tuned. A common thread among all measures is the focus on sustainability. Where measures were fine-tuned, added to, or dropped from the Scorecard, five principles were followed:

1) New measures were developed where the Strategy Map changed and there was no current measure in place.
2) Measures were replaced or refined where the existing measure was found not to be measuring the strategy.
3) Measures were refined when organizational learning about our measures occurred.
4) Leading indicators were added to better balance the Scorecard.
5) Overly complex measures whose results were directionally unclear were replaced by measures that provided better directional indicators.

The measures reported in this plan represent the consolidated performance of the entire company. Due to the nature of our business as a vertically integrated regulated utility, these measures are not disaggregated into specific operating segments as defined and allowed for by the Canadian Institute of Chartered Accountants. Due to the regulatory environment and the bundled nature of our products and services, measure reporting for decision-making purposes is provided to our senior management team on an aggregated basis. Recognizing that BC Hydro is a Commercial Crown corporation, commercially sensitive material is not included.

The purpose and description of each measure on our Balanced Scorecard follow.

Shareholder Value-added (SVA)

The purpose of SVA is to determine how well BC Hydro performed for its shareholder beyond the return expected for a company with a similar level of risk. SVA is calculated by deducting total expenses from total revenue and then deducting a charge for the capital that Hydro uses to produce that revenue.

Base Capital, Operating, Maintenance, and Administrative spending / customer (COMA/Customer)

The purpose of this measure is to provide a gauge of efficiency of operations. Base COMA excludes spending on initiatives, growth, and specific capital. Due to the one-of nature of initiatives, including them does not measure efficiency over time.

Customer Satisfaction Survey

This survey is used to monitor our performance in satisfying customers. The survey determines the percentage of customers that indicate they are either satisfied or very satisfied in response to the question "How satisfied are you with BC Hydro". The question is based on the customer's overall perception and not necessarily on a service experience. The customer segments are defined as Residential Accounts, Commercial Named Accounts, and Industrial Transmission Level Accounts.

Customer Transaction Follow-Up Survey

This survey is used to monitor our performance in satisfying customers based on an actual service experience. For a sample of customers who have had contact with a BC Hydro service provider, a survey is conducted to determine customer satisfaction with the service experience. At present, this measure tracks the percentage of respondents who were very satisfied with call center service transactions. In the future, customer satisfaction with their key account sales representative and customer satisfaction with new electric service installations will be added.

Public Opinion

The purpose of this measure is to track the public's overall impressions of BC Hydro in order to determine to what extent we have the public consent to operate. The measure tracks the results of the survey question, "Would you say that your general attitude towards BC Hydro is very favourable, somewhat favourable, somewhat unfavourable, very unfavourable or are you indifferent towards them?"

System Constraints

The purpose of this measure is to provide an indicator of the system areas to be further evaluated if a constraint trend is identified. The measure is number of hours where the system was constrained by generation or by transmission import or by transmission export.

Power Reliability

Reliability is measured through a combination of Average System Availability Index (ASAI) and Customer Average Interruption Duration Index (CAIDI). ASAI is the percentage of time power is available. CAIDI is the average number of hours per interruption. These indices are generally standard in the electric utility industry and are used by the Canadian Electricity Association in their annual comparison of electric utilities.

Percentage Improvement in Total Accident Frequency

The purpose of this measure is to guide corporate mitigation strategies for managing and preventing all employee work-related injury. The measure is composed of Medical Aid Injuries and Disabling Injuries. Medical Aid Injuries are defined as injuries where a medical practitioner has submitted a fee to Workers' Compensation Board (WCB) for services rendered and the duration the employee was absent from work did not exceed the normal shift of the day of injury. Disabling Injuries are defined as injuries that involve the employee being absent for more than the day of injury.

Effectiveness of External Safety Program Communications

The purpose of this measure is to determine the degree to which external safety communications are heard and understood by the public. It is a survey of the unaided recall of the 7 Steps to Electrical Safety message by the target audience.

Megawatts from New Green Energy Sources

The purpose of this measure is to demonstrate our commitment to progressive environmental management by providing environmentally sound energy sources to meet public energy demand. The measure is defined as megawatts of new green energy contracted (nameplate capacity) at the key principles agreement stage.

Greenhouse Gas Offsets

The purpose of this measure is to demonstrate our commitment to progressive environmental management by reducing our net impact on climate change. The measure is defined as metric tonnes of CO_2e[1] offsets purchased relative to plan based on signed contracts.

Percentage Completion of the Community Fund Agreement Strategy

The purpose of this measure is to indicate the reduction of risk (operational and energy available for import/export) from assets on First Nations' land. It is defined as the percentage of First Nations bands with signed community fund agreements in place.

Percentage of Top Customers Visited by VPs

The purpose of this measure is to start the process of creating a customer focused culture by demonstrating top management's commitment to customers.

Percentage Completion of Milestones for Sustainability Opportunities

Key sustainability opportunities have been identified. The development of initiatives for these opportunities is crucial to achieving our goal of sustainability.

Percentage of Management and Professional Employees with Personal Development Plans

The purpose of this measure is to track the involvement of all Management and Professional employees in the management development activity.

Percentage of Bargaining Unit Employees with Personal Development Plans

The purpose of this measure is to track the progress of employees towards creating personal training and development plans.

Effective Communications Competency

The purpose of this measure is to determine improvements in the leadership competency of effective communication. The measure is defined as the percentage of Leader-Managers at or above standard for Effective Communication as measured by the 360-degree feedback tool.

Organizational and Business Awareness Competency

The purpose of this measure is to determine improvements in the leadership competency of organizational and business awareness. The measure is defined as the percentage of Leader-Managers at or above standard for Organizational and Business Awareness as measured by the 360-degree feedback tool.

[1] Greenhouse gases include various compounds, including carbon dioxide (CO_2), methane (CH_4) and nitrous oxide (N_2O). CO_2e refers to these gases in CO_2 equivalent units

Percentage Milestones Met in Top Strategic Information Technology (IT) Projects

We must cascade our corporate business strategy to the IT function to support the formulation and implementation of an IT strategic plan. This measure tracks the aggregated progress of a number of projects within the IT strategic plan.

Targets

The targets for each measure reflect the strategic priorities. For most measures three-year targets have been set. Due to the commercially sensitive nature of the targets for the measures contained in our Strategy Map and Balanced Scorecard, the specific targets cannot be disclosed.

5.0 MAJOR CAPITAL PROJECT INFORMATION

The following projects have capital costs expected to exceed $50 million.

Stave Falls Replacement

The Stave Falls replacement project involved the redevelopment of the existing hydroelectric generation system to increase output. The project was undertaken in order to ensure domestic load requirements are met. The asset is in service and the project will wrap up shortly. The total project is forecast to cost $144 million versus the budget of $181 million. Based on this project's history (milestones completed on time and significantly under budget) and, as the project is substantially complete, minimal risks are associated with the project.

Burrard Thermal Upgrade

In May 1993, a $176M upgrade of our natural gas-fired Burrard Thermal Generating Plant, located in Port Moody, BC was started. The original decision to upgrade Burrard was based on recognition - by BC Hydro, the multi-stakeholder Burrard Task Force and the province - of the plant's importance to the province and vital role it plays within the electricity system. The primary benefits of the upgrade project are to minimize the environmental impacts associated with plant operations, while at the same time modernizing the plant so that it can continue to help meet provincial energy needs into the future. In other words, the purpose of the upgrade project is to address environmental, financial and operational risks associated with the existing facility.

The original project included installation of selective catalytic reduction (SCR) emissions control technology on three of the six units. Additional project funding totaling $46M was approved to complete SCR installation on the remaining three units. The environmental components of the upgrade project are substantially complete with the recent installation of the sixth and last SCR unit. This emissions control technology reduces nitrogen oxide (NOx) emissions from the plant by more the 75% of previously permitted levels. In addition, the upgrade project includes minimizing the impact of the plant's cooling water effluent to Burrard inlet, as well as addressing local issues such as noise and the appearance of the plant. The upgrade project is ongoing with the remaining project components primarily relating to plant safety and reliability upgrades.

Port Alberni Power Generation

The Port Alberni Power Generation project involves the construction of a gas-fired generation plant. The project is being undertaken in order to ensure Vancouver Island load requirements are met. This project is a joint venture with a private sector partner. Negotiations with our partner are currently underway and the in service date for the asset is expected to be November 2003. Our share of the costs is forecast to be $180 million. Environmental risks associated with local plant emissions are mitigated by the use of best available control technology. However, public concerns and potential regulatory risks remain outstanding issues, particularly associated with the plant's greenhouse gas emissions. To address these issues, we will be offsetting 50% of the CO_2e in line with the greenhouse gas offset strategy noted earlier. An additional risk is timing. To meet projected load requirements on Vancouver Island, this asset should be in-service by the end of 2003. If a project approval certificate is not obtained in a timely manner, the project could be delayed and jeopardize the projected in-service date.

Georgia Strait Pipeline Crossing

The Georgia Strait Pipeline Crossing project involves the construction of a natural gas pipeline to transport fuel to gas-fired plants on Vancouver Island. The project is being undertaken in order to ensure Vancouver Island load requirements are met. This project is also a joint venture with a private sector partner. A National Energy Board application was filed on April 24, 2001. Our share (50%) of the costs is forecast to be $130 million. There are public concerns and regulatory risks associated with this project. Provincial approval, National Energy Board approval, and US approval (as the pipeline will cross US territory) are required.

Seven Mile Unit 4

The Seven Mile Unit 4 project involves the design, supply and installation of a fourth generating unit at our Seven Mile dam and powerhouse on the Pend d'Oreille River near Trail. The objective of implementing this project in advance of domestic electricity needs is to earn a positive financial contribution for BC Hydro and the province by adding non-greenhouse gas emitting generation to our system. The energy produced will displace future thermal generation and thereby reduce greenhouse gas emissions. Additionally, by implementing the unit now, we will realize the turbine and generator price advantages and employment benefits as provided under the Strategic Partnering Agreement with GE Canada. The total capital cost of the Seven Mile Unit 4 project is estimated to be $89 million for a spring 2004 in-service date. Inherent in capital projects is the risk of higher costs due to delay or over-runs in the construction schedule. The benefits of this project are associated with the amount of energy generated in any year and the market price of the energy. The amount of energy varies depending on the performance of the turbines, streamflows, and the value of the energy in the wholesale electricity market. A revenue risk is associated with high volatility in the market price of energy.

Customer Information System

The Customer Information System project involves the replacement of an existing system. The objective of the project is to replace outmoded technology with a more flexible tool that will enable us to better meet or exceed customer expectations. Preliminary investigations are under way to determine the scope, timing and costs of the project. These investigations will

have to be completed before requesting appropriate approval to proceed. At this stage, the total project is forecast to cost $54 million. Associated risks include project costs, scope, internal and external resourcing, and change management.

6.0 CONCLUSIONS

We are continuing to build from a succession of years with strong financial returns. Our electricity rates continue to be amongst the lowest in North America.

We have adopted an explicit strategic direction for the company based on the principles of sustainability recognizing, in part, that much of what we already do aligns with sustainability. Moving forward, our increased focus on sustainability will provide a clearer framework for providing energy products and services that:

- generate a financial return and are valued by our customers;
- provide benefits to the public and our employees; and
- promote positive and minimize negative environmental impacts.

Our strategic direction is being implemented through our Strategic Management Process and Balanced Scorecard, as well as through specific initiatives such as our greenhouse gas offset and green energy programs.

In keeping with our strategic direction, we need to continue to realize efficiencies, abandon lower value activities, and re-prioritize to ensure optimum allocation of limited resources. Additionally we must focus on sustainability opportunities that align with the public's increasing social and environmental expectations, continue to build a strong and capable organization, and create an organization-wide customer focused culture.